

**Commonwealth of Kentucky
Department of Revenue**

**Handbook for Electronic Filers of
Individual Income Tax Returns**

Tax Year 2004



**Publication KY-1345
Revised October 2004**

**Kentucky Dept of Revenue
Electronic Filing**



What's New for Tax Year 2004

DIRECT DEBIT-Kentucky will begin accepting direct debit payments on tax due returns. The payment must be the amount due as indicated on the return. A date up to April 15, 2005 can be elected for the payment to be debited from the specified account. After April 15th, the payment will be debited when the return has completed processing. The direct debit payment is only being offered on returns filed electronically.

STANDARD DEDUCTION—For 2004, the standard deduction is increased to \$1,870.

RETIREMENT INCOME—For 2004, the retirement income exclusion is increased to \$40,200.

INTERNAL REVENUE CODE—Kentucky's income tax law is based on the Internal Revenue Code in effect December 31, 2001, exclusive of any amendments made subsequent to that date, other than amendments that extend provisions in effect on December 31, 2001, that would otherwise expire. Changes to federal income tax law made after the Internal Revenue Code reference date in KRS 141.010(3) do not apply unless adopted by the Kentucky General Assembly. The following Acts and related provisions do not apply to Kentucky returns. Bullets describe Kentucky tax treatment for some of the provisions.

- **Victims of Terrorism Tax Relief Act of 2001** signed on January 23, 2002.
- **Job Creation and Worker Assistance Act of 2002 (JCWAA)** signed on March 9, 2002.
 - The 30 percent special depreciation is not allowable for Kentucky income tax purposes.
- **Trade Act of 2002** signed on August 6, 2002.
 - Reduce health insurance premiums by the amount of Health Coverage Tax Credit claimed on federal Form 8885, Health Coverage Tax Credit, and any advance payments from Form 1099-H, box 1, before deducting on Schedule M.
- **Jobs and Growth Tax Relief Reconciliation Act of 2003 (JGTRRA)** signed on May 28, 2003.
 - Section 179 expense allowance is limited to \$25,000 and the phase-out threshold is \$200,000 for Kentucky income tax purposes.
 - Depreciate off-the-shelf computer software for Kentucky purposes.
 - The 50 percent special depreciation is not allowable for Kentucky income tax purposes.
- **Military Family Tax Relief Act of 2003** signed November 11, 2003.
 - The excludable amount of military death benefits is \$3,000 for Kentucky.
 - The exclusion of certain income and death benefits of astronauts who have lost their lives on a space mission is not allowable.
 - The exclusion for amounts received by certain employees and members of the armed forces under the federal Department of Defense Homeowners Assistance Program is not allowable.

- The above-the-line deduction for overnight transportation, meals, and lodging expenses of National Guard and Reserve members who must travel away from home more than 100 miles and who must stay overnight is not allowable. Kentucky National Guard and Reserve members may deduct expenses as a miscellaneous itemized deduction. Form 2106 required.
- The suspension of the five-year test period for ownership and use of a residence for up to 10 years in excluding gain from the sale or exchange of a principal residence is not applicable for Kentucky.

• **Medicare Prescription Drug, Improvement, and Modernization Act of 2003** signed on December 8, 2003.

- A deduction is not allowed for the amount contributed to a health savings account for an individual.
- Earnings on the health savings account are taxable to the individual.
- Amounts distributed from the health savings account are not taxable to Kentucky, regardless of whether or not the amount is used to pay medical expenses.
- Medical expenses paid with a distribution from a health savings account are allowed in the computation of Kentucky itemized deductions.
- A rollover from an Archer medical savings account to a health savings account results in a taxable transaction.
- Amounts contributed by an employer to a health savings account for an employee are taxable wages to the employee.
- Amounts contributed to a health savings account pre-tax by an employee under Section 125, IRC (cafeteria plan), are taxable wages for Kentucky.

• **Working Families Tax Relief Act of 2004 (WFTRA)** signed October 4, 2004.

- Teacher's classroom expense deduction is not allowable for Kentucky income tax purposes.

SERVICE MEMBERS CIVIL RELIEF ACT (SCRA) signed on December 19, 2003. This Act is not included in the Internal Revenue Code; therefore, Kentucky conforms to all provisions.

TOBACCO QUOTA BUYOUT—Proceeds from a national tobacco buyout are exempt from Kentucky income tax.

Reminders from Tax Year 2003

- 1) Form 8453-K does **not** need to be mailed to the Kentucky Department of Revenue (KDOR). When this form is required, please keep a signed copy in your files for a period of three years.
- 2) Kentucky will again accept state-only returns for the tax year 2004. We will not accept state-only returns for part- year residents or nonresidents.
- 3) Taxpayers can pay their 2004 Kentucky individual income tax by MasterCard or VISA credit card through April 15, 2005. Access the Kentucky Department of Revenue's home page (<http://revenue.ky.gov>) to make credit card payments over the Internet. Click on the KY E-Tax logo or choose *Electronic Services* from the menu, then click on *Credit Card*. If a taxpayer does not have access to the Internet, you may call KDOR at (502) 564-4581. To make a credit card payment, the following information is needed: credit card type and number, expiration date and the cardholder's address as it appears on the credit card billing statement.
- 4) The 100% deduction for health insurance premiums paid does not include premiums paid using pretax dollars. Some software packages make no mention of this and the taxpayers are entering all premiums, including those paid by employers using pretax dollars. Please make sure the taxpayer is aware of which premiums are deductible.
- 5) Kentucky accepts all federal extensions. If a federal extension has been filed, please set the indicator to 'yes' so that Kentucky will not send a tax due bill with penalties and interest added. The 'trigger' for this action is in the federal forms.

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Section 1

KENTUCKY ELECTRONIC FILING CALENDAR

For Taxable Period beginning January 1, 2004, and ending December 31, 2004

- Begin Federal/State Software TestingNovember 9, 2004
State testing for software developers is to begin after
developers have been accepted by the IRS.
- Begin Transmitting Returns to IRS/KDOR.....January 14, 2005
- Last Day to Transmit Kentucky Returns ElectronicallyOctober 17, 2005
All fed/state rejected returns must
be re-transmitted by.....October 22, 2005

NOTE: These dates are subject to change at any time.

Section 2

Introduction

The Kentucky Department of Revenue (KDOR) joined with the Internal Revenue Service (IRS) in 1994 to offer electronic filing of federal and state individual income tax returns. The Federal/State Electronic Filing Program allows taxpayers to file both their federal and state returns electronically through their tax preparer. This program is an effort to provide “one-stop shopping” for all tax preparation and filing. Taxpayers, tax practitioners and KDOR benefit from electronic filing.

The program was offered to all Kentucky taxpayers during the 2004 filing season, with over 746,000 returns being received to date. This represents an increase of 11% from 2003.

IRS Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, regulations and requirements governing tax preparers, transmitters, and originators of returns put forth by the IRS are used by KDOR.

Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns, is to be used in conjunction with IRS Publication 1345. The Kentucky Handbook sets forth those items that are unique to KDOR. Because most functions in the Federal/State Electronic Filing Program are the same, this handbook highlights the special features for Kentucky. The information contained herein explains the program, including changes from last year.

If there are any questions, comments or suggestions on this handbook, please contact the:

Kentucky Department of Revenue

Judy Ritchie, Electronic Filing Coordinator
1266 Louisville Rd
P.O. Box 1231, Station 29
Frankfort, Kentucky 40602-1231
(502) 564-5370
Fax (502) 564-9897
E-Mail address: Judy.Ritchie@ky.gov

Teresa Gardner, Manager
(502) 564-9329
E-Mail address: Teresa.Gardner@ky.gov

Technical Support and Software Questions

Commonwealth Office of Technology

Primary Contact
Marcus Deaton II
(502) 564-6033 Ext. 4858
E-Mail address: Marcus.Deaton@ky.gov

Secondary Contact
Peggy Barber
(502) 564-6033 Ext. 4798
E-Mail address: Peggy.Barber@ky.gov

Section 3

PUBLICATIONS

The following publications describe the process of electronic filing and federal/state electronic filing:

Internal Revenue Service Publications

Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns

Publication 1346, Electronic Return File Specifications and Record Layouts for Individual Income Tax Returns

Publication 1436, Test Package for Electronic Filing of Individual Income Tax Returns

Publication 1545, The Electronic Filing Logo Guidelines for Effective Use

Kentucky Department of Revenue Publications

Publication KY-1345, Kentucky Handbook for Electronic Filers of Individual Income Tax Returns

Publication KY-1346, Kentucky Software Developer's Guide

Publication KY-1436, Kentucky Test Package

Forms and publications are also available on the internet at <http://revenue.ky.gov>

KDOR forms and publications are available on Kentucky's fax-on-demand system, *TaxFax*. *TaxFax* is an automated forms distribution system that is available 24 hours a day, 7 days a week by calling (502) 564-4459. A catalog of available documents can be requested for selection purposes.

Section 4

FEDERAL/STATE ELECTRONIC FILING

General Information

Tax preparers and transmitters accepted in the IRS Electronic Filing Program will be able to participate in the Federal/State Electronic Filing Program and be able to file both the federal return and the state return in one transmission to the IRS Tennessee Computing Center (inquiries on returns transmitted should be directed to the Kansas City Service Center). **The software used to transmit the data must be certified by both the IRS and Kentucky Department of Revenue (KDOR).** KDOR will provide a certification letter to all approved software developers. This certification should accompany the final version of the software. The IRS will acknowledge acceptance of the federal data and receipt of the state data packet. The IRS acts as a conduit through which KDOR will retrieve the state data packet for processing.

KDOR will acknowledge receipt of the state data and then process the taxpayer's return. The transmitter should be able to retrieve the Kentucky acknowledgment within three days from the time acknowledgment is received from the IRS.

Who May Participate

Federal/state electronic filing for full-year resident Kentucky returns is available to all interested parties who have been accepted in the federal electronic filing program. There is no additional application for Kentucky. In 2005 KDOR will accept returns through October 17th. Please contact software companies directly if you have questions about availability of state software packages.

STATE ONLY FILING

Kentucky is accepting state only returns for the 2004 tax year. *We will not accept state-only returns for part-year residents and nonresidents.* State-only filing is a method to file a state return through the current Fed/State system. The type returns that will be eligible for state only filing are: 1) Previously rejected state e-filed returns and, 2) State returns input separately from a previously filed federal return. In all transmissions, the federal data must be attached.

Please consult your software vendor to determine the availability of state only filing.

Section 5

ACCEPTANCE PROCESS

Getting started

In order to participate in the Federal/State Electronic Filing Program, participants must apply to the IRS by submitting Form 8633, Application to Participate in the Electronic Filing Program. This form is available from the IRS. **An additional application form is not necessary for the Kentucky Department of Revenue.**

Federal Publication 1345, Handbook for Electronic Filers of Individual Income Tax Returns, specifies the application process and requirements for federal participation. The IRS definition of the various categories of electronic filers (electronic return originator, transmitter or software developer) will apply for Kentucky electronic filing purposes under the federal/state program.

KDOR will recognize the federal acceptance process for the 2004 tax period. Acceptance into the federal program is automatic acceptance into the Kentucky electronic filing program. No separate application form is necessary for the Kentucky program. However, KDOR will conduct a suitability check on the applicants into the Federal/State Electronic Filing Program and will notify any applicant who is ineligible to participate.

KDOR will use the same EFIN and ETIN assigned by the IRS for the Federal/State Electronic Filing Program.

Software developers are required to test with KDOR prior to distribution of software. Use of untested software could cause Kentucky returns to be rejected.

In addition to software developers, transmitters will be allowed to test with KDOR to ensure they have the ability to retrieve the Kentucky acknowledgment records. Tax preparers and EROs also have the option to test with KDOR but this is not required.

Test material and instructions are posted on the internet at <http://revenue.ky.gov> or can be obtained by contacting:

Kentucky Department of Revenue
Commonwealth Office of Technology
P.O. Box 1231, Station 27
Frankfort, KY 40602-1231
(502) 564-6033 Ext. 4858
E-Mail address: Marcus.Deaton@ky.gov
(502) 564-6033 Ext. 4798
E-Mail address: Peggy.Barber@ky.gov

Section 6

FILING AN ELECTRONIC RETURN

Composition of an Electronic Return

An electronic return consists of data transmitted electronically to KDOR, using the IRS as a conduit.

Electronic Portion of Return

The following forms and schedules can be transmitted electronically and are considered the electronic portion of the return:

1. All federal individual income tax forms and schedules allowed by IRS Publication 1345, Section 18.
2. Form 740, Kentucky Individual Income Tax Return.*
3. Schedule A, Kentucky Itemized Deductions.
4. Schedule M, Kentucky Federal Adjusted Gross Income Modifications.
5. Schedule P, Kentucky Pension Income Exclusion.
6. Form 2210-K, Underpayment of Estimated Tax by Individuals.

*740-EZ is filed through the Form 740 format.

All software packages should support all forms available for Kentucky electronic filing. Check your software package for forms availability before submitting returns. Any electronic tax returns submitted without all required forms will be rejected. (See Appendix A for rejection codes.)

Non-electronic Portion of Return

The non-electronic portion of the return consists of the following:

1. Form 8453-K, Kentucky Individual Income Tax Declaration for Electronic Filing.
2. State copies of Form W-2, W-2G or 1099-R which would normally be attached to a paper return.
3. Supporting schedules and documents requiring signatures. (Neither the federal nor state return is required to be attached to Form 8453-K since they are sent electronically. However, if someone other than the transmitter prepared the return, the preparer should sign Form 8453-K or the transmitter should attach the paper return with the preparer's original signature to the Form 8453-K).
4. Any other informational documents that the taxpayer voluntarily includes with the return as supporting material.

Guidelines for Form 8453-K (effective March 1, 2002)

Electronic Return Originators (EROs) are not required to mail Form 8453-K to KDOR. The KDOR has established the following guidelines for Form 8453-K:

- Fed/State E-filed returns with a federal PIN – For returns filed via this method, an 8453-K is **not** required. The use of the federal PIN meets signature requirements for the Kentucky return.
- Fed/State E-filed returns without a federal PIN – For returns filed via this method, an 8453-K is required. **This document does not need to be mailed to KDOR.** EROs must retain them for a period of three years. State copies of the wage statements, supporting schedules, documents requiring signatures and other informational documents should be attached to the 8453-K and be retained by the ERO for a period of three years.
- Online Filing – For returns filed via this method, an 8453-K is required. This document does **not** need to be mailed to KDOR. Taxpayers must retain the form for a period of three years.

Exclusions from Electronic Filing

In addition to the returns excluded from federal electronic filing listed in Publication 1345 for tax year 2004 (2005 filing season), the following are specific Kentucky forms which are also excluded:

1. Form 740-X, Amended Kentucky Individual Income Tax Return
2. Prior year returns
3. Form 740-NP, Nonresident or Part-Year Resident Income Tax Return
4. Form 740-NP-R, Nonresident--Reciprocal State
5. Schedule HH, Housing for Homeless Families Deduction
6. Schedule RC, Application for Income Tax Credit for Recycling and/or Composting Equipment
7. Schedule RC(K-1), Pro Rata/Distributive Share of Approved Recycling and/or Composting Equipment Tax Credit
8. Schedule UTC, Unemployment Tax Credit
9. Schedule TC, Tax Computation Schedule
10. Form 1045-K, Kentucky Net Operating Loss Deduction Application for Income Tax Refund
11. Form 4972-K, Kentucky Tax on Lump-Sum Distributions
12. Form 8582-K, Kentucky Passive Activity Loss Limitations
13. Any partnership, corporate or fiduciary tax return
14. Fiscal year returns
15. Injured Spouse declaration

Section 7

TRANSMITTING THE KENTUCKY ELECTRONIC RETURN

Kentucky returns included in the Federal/State Electronic Filing Program will be transmitted to the IRS Tennessee Computing Center, along with the federal return (all inquiries to the IRS regarding transmissions should be directed to the Kansas City Service Center). Transmissions shall be accomplished according to IRS procedures.

Kentucky will accept state-only returns for the 2004 tax year. We will not accept state-only returns for part-year residents and nonresidents. Please consult your software vendor to determine the availability of state only filing.

Once the IRS has provided an acknowledgment to the ERO, the state data segment will be made available to KDOR for retrieval within 24 hours. **KDOR will not receive any state data associated with a rejected federal return.**

The IRS acknowledges only that it received the state data for both Fed/State and state only transmissions. The IRS acknowledgment is not an indication that the KDOR has “accepted” your state return. You must receive the Kentucky acknowledgment to be assured your state return has been accepted. Contact KDOR if you receive a federal acknowledgment but no state acknowledgment within three days from the time acknowledgment is received from the IRS.

Acknowledgment of the Kentucky Return

The Kentucky acknowledgment system is designed to inform transmitters that the Kentucky return has been received and either accepted or rejected by the KDOR. (Rejection codes are included in Appendix A.) The acknowledgement system will provide codes of “A” for accepted and “R” for rejected. The acknowledgement code of “A” means that the return has been accepted for processing by the Department, not necessarily that the return is error free. We will no longer be using the code of “C” for conditional. Upon receipt of the Kentucky return from the IRS, KDOR will generate an acknowledgment record and post the record for retrieval by transmitters.

Kentucky’s acknowledgement system will change from last year. The acknowledgements will now be handled through the IRS. We will be using the same format that is described by the IRS for all acknowledgements.

In the event the IRS is not ready in time for processing, Kentucky will continue to use AKSYS for the acknowledgements. To make arrangements to register for the acknowledgment program and to receive an AKSYS mailbox, transmitters should contact:

AKSYS
P.O. Box 15719
Colorado Springs, CO 80935-5719
1-800-231-6137

EROs who transmit to the IRS through a third-party transmitter should contact that transmitter to find out how to retrieve the acknowledgment records.

Transmitters are encouraged to retrieve their acknowledgment records regularly. Transmitters should notify their EROs of the return's acceptance within two working days after obtaining the acknowledgment. EROs are instructed to wait until they receive the acknowledgment record before the corresponding Form 8453-K is held for the retention period. (see Section 8).

NOTE: All transmitters will be allowed to perform state testing to ensure they can access and retrieve the state acknowledgment record.

Non-receipt of Kentucky Acknowledgment Record

If any of the following error conditions occur, please follow the resolution process indicated below.

1. Kentucky acknowledgment records are received for some, but not all returns filed on a given date.
2. IRS acknowledgment records were received more than four working days ago and no Kentucky acknowledgment records have been received.
3. A transmission day is skipped (i.e., received acknowledgment records for a Monday and a Wednesday but none for a Tuesday transmission).

In all instances, be sure you have received an IRS acknowledgment record before you contact the Department of Revenue.

Resolution Process

To check the status of a Kentucky acknowledgment record, EROs must contact KDOR's Electronic Filing Helpdesk at (502) 564-5370. Have the primary Social Security number and date of transmission available when making the call.

In some instances, you may be required to file a paper return to correct problems, if the return is not eligible for state-only filing. Paper returns to replace rejected electronic returns should be sent to:

Kentucky Department of Revenue
Electronic Filing
P.O. Box 1231, Station 29
Frankfort, KY 40602-1231

The paper return should include a printout of the return (including a copy of the federal return and all supporting schedules) and copies of all Forms W-2, W-2G and 1099-R.

If the paper replacement is not sent to this address, it cannot be guaranteed priority processing. If non-qualifying returns (e.g., returns with Schedule TC) are filed electronically, the replacement returns will be placed in the normal paper return processing stream.

Changes to Electronic Returns

After electronic returns are transmitted, they cannot be recalled or intercepted in process. If the electronic filer or taxpayer wishes to change any entries after a return has been accepted, an amended return (Form 740X) must be filed through the normal paper filing process. No action should be taken to change the computation between the date transmitted and the date the KDOR acknowledges the return.

Section 8

FORM 8453-K

Kentucky Individual Income Tax Declaration for Electronic Filing

Form 8453-K is the signature portion of the return. It must be completed and signed by all appropriate parties before the return is transmitted electronically.

Form 8453-K:

1. Authenticates the return;
2. Authorizes the ERO to file the return electronically on behalf of the taxpayer; and
3. Authorizes KDOR to inform the ERO whether a taxpayer's return has been accepted.

Returns requiring forms or schedules excluded in Section 6 must be filed in paper format. Electronic filers must not use Form 8453-K to submit forms or schedules which are excluded (see Section 6) from electronic filing.

Form 8453-K authorizes the KDOR to discuss tax return information with the ERO.

Use only the official Form 8453-K or an approved substitute form that duplicates the official form in format, language, content and size. Photocopies are acceptable.

The following is the sequence of events in the handling of Form 8453-K:

1. An ERO prepares the return and computes the taxes based on the information the taxpayer provides or accepts an already prepared tax return for the purpose of transmitting it electronically.
2. After the return has been prepared and before it is transmitted, the taxpayer must verify the information on the return and sign Form 8453-K. The signature of both taxpayers is required on returns filed "Married, filing joint return" or "Married, filing separately on a combined return."
3. A copy of the prepared return must be provided to the taxpayer.

Form 8453-K is part of the electronic tax return for the purposes of taxpayer verification and signature. See Section 6 for details on when to use the 8453-K. A blank Form 8453-K is the same as a blank tax return. Practitioners are prohibited from allowing taxpayers to sign a blank tax return. However, it is permissible to

have the taxpayer review the completed tax return on the display terminal. The taxpayer should also review the completed Form 8453-K before signing it.

The DCN assigned to the taxpayer's federal return will also be used for the Kentucky return. This DCN should be entered on Form 8453-K. If the electronic return is rejected by the IRS and a new DCN is assigned, you must use the DCN accepted by the IRS on the Kentucky electronic return and Form 8453-K.

Following the new guidelines for Form 8453-K (see Section 6), the ERO is required to retain this form for a period of 3 years.

If requested by the KDOR, the ERO must provide the department with a copy of the Form 8453-K or a new Form 8453-K within five days of the department's request for the form.

Section 9

REFUND OPTIONS FOR ELECTRONIC FILERS

Taxpayers may elect to have their overpayments applied to their next tax year's estimated tax, mailed to them in the form of a refund check, or deposited directly into a bank account. If direct deposit is elected, the same verification procedures outlined in IRS Publication 1345 must be followed.

Taxpayers' Kentucky refunds do not have to be direct deposited in the same bank account as their federal refunds.

KDOR's acknowledgment of the electronic return will not indicate whether the refund will be direct deposited.

Some items which could cause KDOR to deny a direct deposit request:

- All/part of the overpayment is applied to the taxpayer's delinquent Kentucky taxes.
- All/part of the overpayment is applied to the taxpayer's debts to other state agencies and/or the IRS.
- The amount of the refund is adjusted by the tax processing system.
- An invalid account number is submitted.

The taxpayer may determine the reason for the conversion by calling the Department of Revenue's Taxpayer Assistance Section at (502) 564-4581 between 8:00 a.m. and 4:30 p.m., Monday through Friday, Eastern Standard Time.

Section 10

REFUND DELAYS

It is anticipated that refunds from Kentucky returns filed in the Federal/State Electronic Filing Program will be issued in two to three weeks. The average amount of time to issue a refund during the 2004 processing year was 7 to 10 days. However, the following conditions may delay refunds and/or change refund amounts on electronically filed returns:

1. The taxpayer owes delinquent Kentucky taxes.
2. The taxpayer owes a debt to another state agency or to the IRS.
3. The estimated tax payments claimed on the return do not match the estimated tax payments recorded on KDOR's estimated tax file.
4. The refund amount is adjusted when the electronic return is processed.
5. Bad addresses. Common problems are addresses containing a rural route. While the KDOR recognizes that some rural routes still exist in Kentucky, most rural routes have been eliminated and assigned a street name with a house number. Preparers should verify that the rural route is still a valid address before utilizing this address on the taxpayer's return. Another common problem is an address that contains both a post office box number and a street address. Please enter the street name and house number on the first address line and enter the post office box number on the second address line.

***Important
address
information***

If individuals need to contact the Department of Revenue regarding their Kentucky refund, they should be prepared to give their Social Security number and whole dollar amount of the refund. These taxpayers should contact KDOR's ARTIS line (502) 564-1600.

Section 11

PAYMENT OF BALANCE DUE AMOUNTS

The taxpayer is responsible for paying the amount due the KDOR by April 15, 2005 to avoid penalties and interest. Details of each payment option are listed below.

1. Kentucky will begin accepting direct debit payments on tax due returns. The payment must be the amount due as indicated on the return. A date up to April 15, 2005 can be elected for the payment to be debited from the specified account. After April 15th, the payment will be debited when the return has completed processing. The direct debit account information can be found on the Form 8453-K.

2. The taxpayer may submit payment by mailing Form 740-V with their payment. Form 740-V is a payment coupon made available to EROs. If the ERO's software package has the capability of printing a document in the same format as the Form 740-V, this can also be used. **A paper copy of the electronic return should not be submitted with the 740-V. This delays processing of the electronic voucher and payment.**

Payments made with Form 740-V should be mailed to:

Kentucky Department of Revenue
Frankfort, KY 40619-0008

3. Taxpayers will also be able to pay their 2004 Kentucky individual income tax by MasterCard or Visa credit card through April 15, 2005. Access the Department of Revenue's home page at (<http://revenue.ky.gov>) to make credit card payments over the Internet. Click on the *KY E-Tax* logo or choose *Electronic Services* from the menu, then click on *Credit Card*. If the taxpayer does not have access to the Internet, you may call the KDOR at (502) 564-4581.

A 'tax due notice' will not be sent to the taxpayer prior to the April 15th filing deadline. The taxpayer should submit payment using one of the payment options listed above prior to April 15, 2005 to avoid penalties and interest.

Section 12

WHAT ELECTRONIC FILERS MUST PROVIDE TO THE TAXPAYER

The ERO must furnish the taxpayer with documentation of all completed Kentucky forms and schedules filed for the taxpayer. This material should be provided to taxpayers at the time they sign Form 8453-K or use the electronic Self-Select pin signature.

The ERO must also provide the taxpayer with a copy of the following material filed with KDOR:

1. The completed Form 8453-K, Kentucky Individual Income Tax Declaration for Electronic Filing.
2. Other documents containing required signatures.
3. Any other documents which are not Kentucky forms or schedules.

In addition, the ERO should advise the taxpayer to retain copies of the following material:

1. Form W-2, W-2G or 1099-R.
2. Any other documents, not required by KDOR, which the taxpayer voluntarily includes as supporting material.
3. The signed Form 8453-K.

Immediately upon learning that a return was not accepted by KDOR, the ERO must advise the taxpayer that their return was not accepted, **(if the return is not eligible for state-only filing)** and that a paper return must be filed. The taxpayer should allow up to twelve weeks for any Kentucky refund to be issued on a paper return.

If an electronically filed return was acknowledged as accepted by the KDOR, the ERO should advise the taxpayer to wait three weeks from the acknowledgment date before making an inquiry about his/her refund. The taxpayer may call KDOR's ARTIS line (502) 564-1600 for information about his or her refund. They should be prepared to give their Social Security number and whole dollar amount of the expected refund.

It is the responsibility of the electronic filer to follow all guidelines in IRS Publication 1345.

Section 13

PENALTIES

Penalties for Disclosure or Use of Information

Guidelines outlined in IRS Revenue Procedure 94-63 and 94-63A should be followed as well as Kentucky Revised Statute 131.190.

Penalties for Late Filing, Late Payment and Fraudulent Returns

This provision provides due notice that all additions to tax, penalties, and criminal provisions applicable to paper filers are also applicable to electronic filers. Specifically, penalties and interest for late filing and late payment will be assessed.

Penalties will be assessed against any person filing an incomplete or misleading return. Additionally, any person who willfully subscribes or presents a fraudulent return will be subject to prosecution and penalties. Other criminal provisions will be applicable to the extent that a person attempts to commit forgery and falsify signatures on any electronic filing form, check or direct deposit form.

Section 14

TAXPAYER ASSISTANCE AND REFUND INQUIRY

Taxpayers may confirm acknowledgment of their Kentucky returns with their practitioner or transmitter and are advised to wait three weeks from the transmission date before calling or writing KDOR to inquire about their refund status.

If a taxpayer and/or spouse owes money to KDOR, other state agency, IRS, etc., the amount may be deducted from the refund. This debt will delay processing of the taxpayer's refund because all claims against the refund must be resolved before a refund check can be processed. Electronically filed returns experiencing errors in KDOR income tax system will be given first priority for resolution.

For Taxpayers

KDOR has an automated refund and tax information system, ARTIS, that a taxpayer can call to get the status of their refund. The taxpayer must provide the primary Social Security number listed first on the tax return and the amount of the refund expressed in whole dollars.

ARTIS Line: 1-502-564-1600

Taxpayers needing assistance to resolve any adjustments on returns or problems after processing should contact the Taxpayer Assistance Section at (502) 564-4581.

For Transmitters, Preparers and EROs

The KDOR will operate a helpdesk for electronic transmitters/preparers who are experiencing problems. The operating hours will be Monday through Friday, 8:30 a.m. to 4:30 p.m., except for holidays. The helpdesk number, (502) 564-5370, is to be used by electronic transmitter/preparers only.

APPENDIX A

Rejection Codes and Explanations

001 Error with Federal Adjusted Gross Income

Amounts entered as Federal Adjusted Gross Income on the Kentucky return do not agree with Federal Adjusted Gross Income from the federal return.

002 Invalid Software ID

Software not approved for Kentucky purposes.

003 Invalid EFIN

EFIN number has been inactivated due to unresolved Form 8453-K issues.

004 Duplicate Return

Electronic return already received.

005 Negative Numeric Data Received

Negative numeric data received in positive numeric data fields.

006 Schedule or Form Data Not Submitted

Forms that are eligible for electronic filing and are a part of the return must be submitted with the return.

007 Part year/Non Resident returns are not eligible for electronic filing.

008 Federal return data not included

APPENDIX B

SAMPLE ADDRESSES

Prefix Names:

| | | | |
|----------|------------|------|-----------|
| EXAMPLE: | O'Brien | KEY: | Obrien |
| | Van Winkle | | Vanwinkle |
| | Mc Donald | | McDonald |

Street:

| | |
|----------|-------------------------|
| EXAMPLE: | 120 South Fourth Street |
| KEY: | 120 South Fourth Street |

| | |
|----------|--------------------|
| EXAMPLE: | 23 East 4th Street |
| KEY: | 23 East 4th Street |

| | |
|----------|-----------------------------|
| EXAMPLE: | 2466 1/2 West Highway North |
| KEY: | 2466 West Highway North |

| | |
|----------|------------------|
| EXAMPLE: | C/O George Smith |
| KEY: | CO George Smith |

| | |
|----------|------------------|
| EXAMPLE: | C/O Jones Mfg Co |
| KEY: | Jones Mfg Co |

| | |
|----------|-----------------|
| EXAMPLE: | C/O 123 Main St |
| KEY: | 123 Main St |

| | |
|----------|--------------------|
| EXAMPLE: | 12 North St Apt #4 |
| KEY: | 12 North St Apt 4 |

| | |
|----------|----------------------|
| EXAMPLE: | 34 Hopewell-Bohon Rd |
| KEY: | 34 Hopewell Bohon Rd |

| | |
|----------|----------------------------------|
| EXAMPLE: | 543 Lovelace-Florence Station Rd |
| KEY: | 543 Lovelace Florence Stat Rd |